



# ANNUAL REPORT

for the year ended December 31st, 1968

THE ALGOMA STEEL CORPORATION, LIMITED

# 1968





Changing steel ladles at the Concast

THE **ALGOMA STEEL**  
CORPORATION, LIMITED



STATISTICAL SUPPLEMENT  
TO 1968 ANNUAL REPORT

### COMPOSITION OF CONSOLIDATED SALES

	1968	1967	1966	1965	1964	1963	1962	1961	1960	1959
	%	%	%	%	%	%	%	%	%	%
Steel Products - - - - -	91	90	91	89	88	85	81	78	75	74
Pig Iron - - - - -	5	6	6	8	8	11	12	13	14	15
Sinter - - - - -	1	1	1	1	1	1	3	4	5	6
Coke, coal chemicals and sundry - - - - -	3	3	2	2	3	3	4	5	6	5
	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>

The composition of consolidated sales has remained practically the same during the last three years.

### GEOGRAPHICAL DISTRIBUTION OF CONSOLIDATED SALES

	1968	1967	1966	1965	1964	1963	1962	1961	1960	1959
	%	%	%	%	%	%	%	%	%	%
Eastern Canada - - - - -	12	13	15	14	13	12	13	10	10	6
Ontario - - - - -	56	56	59	59	58	53	51	52	54	58
Western Canada - - - - -	12	14	11	12	14	13	12	11	9	10
United States - - - - -	20	17	15	15	15	22	23	21	20	26
Off-shore - - - - -							1	6	7	
	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>

The proportion of sales in Eastern and Western Canada declined slightly in 1968 and the proportion represented by exports to the United States was higher.

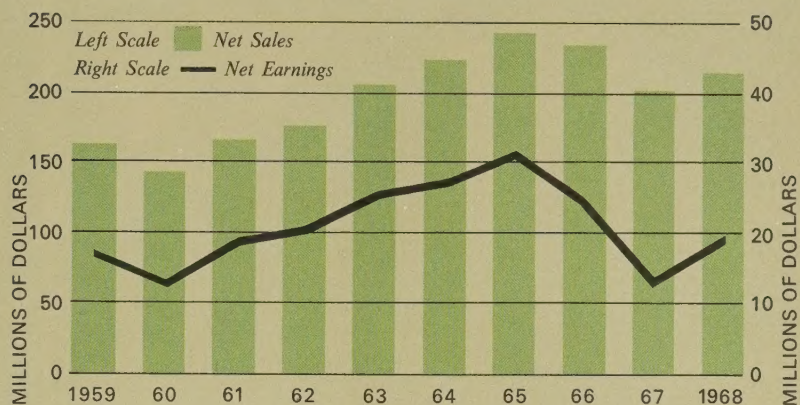
### STEEL SHIPMENTS BY PRODUCT CLASSIFICATION

	1968	1967	1966	1965	1964	1963	1962	1961	1960	1959
	%	%	%	%	%	%	%	%	%	%
Flat rolled - - - - -	49	48	48	51	51	49	44	46	49	50
Heavy structurals including wide flange beams -	21	21	21	19	21	20	21	13	10	10
Rails and fastenings - - - - -	5	7	7	5	7	7	6	6	9	15
Bars and light structurals - - - - -	6	7	6	5	5	5	6	6	7	6
Semi-finished including tube rounds - - - - -	19	17	18	20	16	19	23	29	25	19
	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>

The proportion of shipments represented by flat rolled products and tube rounds increased in 1968.

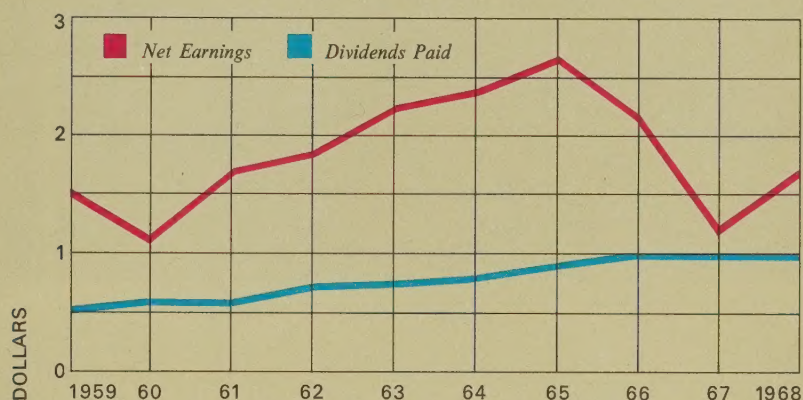
## NET SALES AND NET EARNINGS

1968 sales and earnings improved over last year which was affected by strikes and an extraordinary charge against earnings.



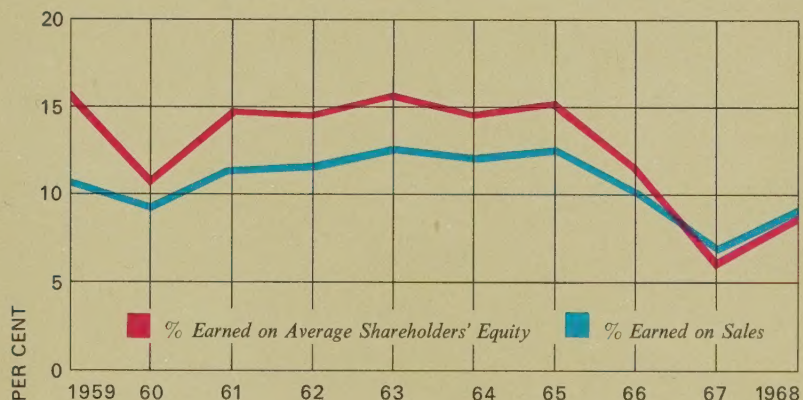
## NET EARNINGS AND DIVIDENDS PER SHARE OF COMMON STOCK

Dividends were continued at the same rate as in 1967 and 1966 and represented 58.8 per cent of earnings.



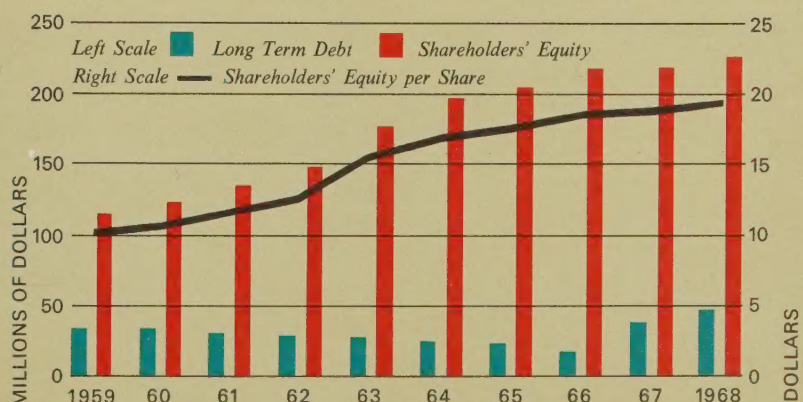
## PER CENT EARNED ON AVERAGE SHAREHOLDERS' EQUITY AND ON SALES

The returns on average shareholders' equity and on sales increased to 8.8 per cent and 9.1 per cent respectively in 1968.



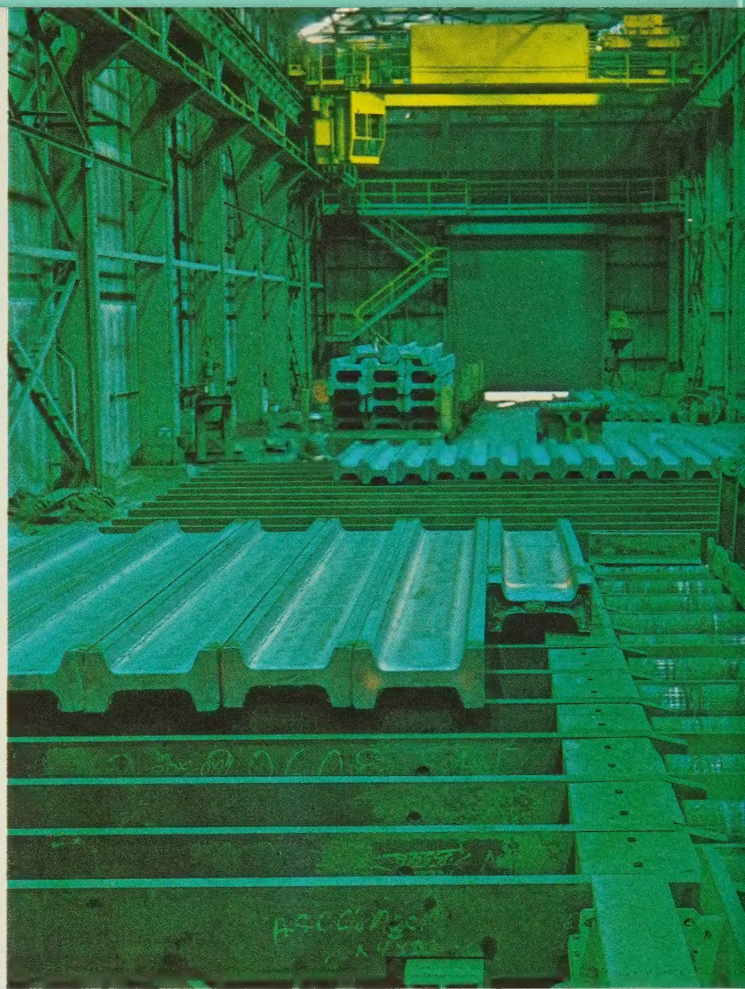
## LONG TERM DEBT AND SHAREHOLDERS' EQUITY

Shareholders' equity increased 3.7 per cent in 1968 to \$19.63 per share. Long term debt at the end of the year was 17 per cent of invested capital reflecting sale of the balance of series C debentures.

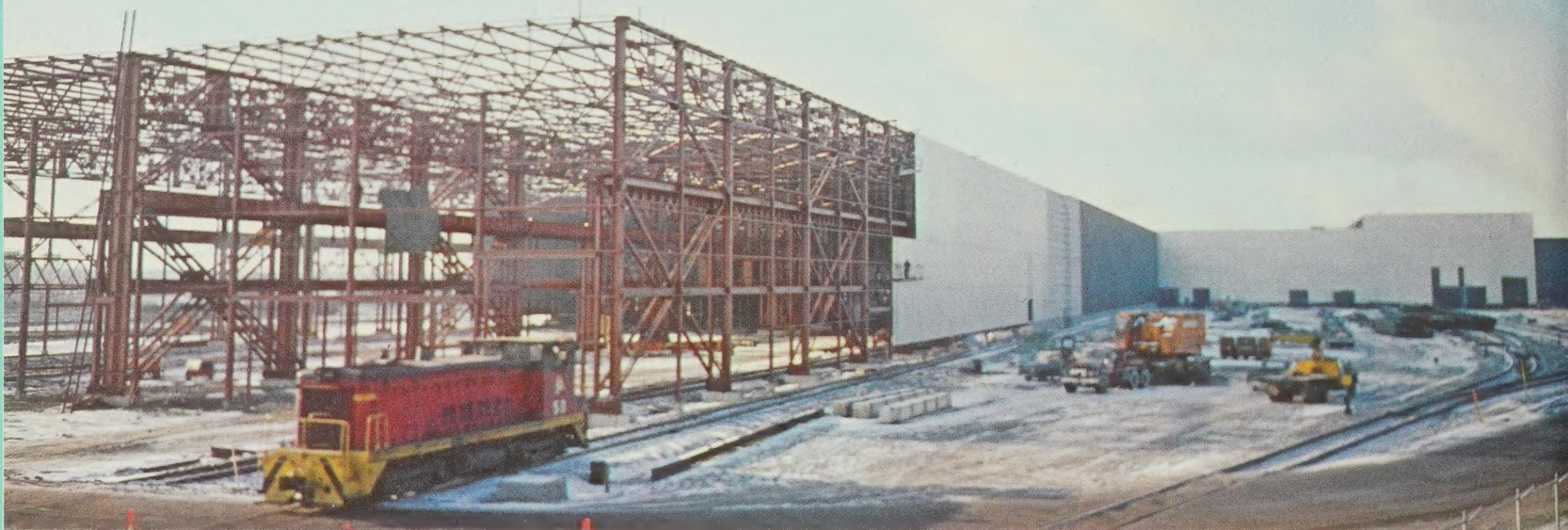




Continuously cast beam blanks on run-out tables having been flame-cut



Beam blanks on cooling bed preparatory to rolling on wide flange beam mill



Expansion program—Almost 700,000 sq. ft. of new buildings have been added to accommodate the new 160" Plate Mill and the relocated 106" Hot Strip Mill



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*Les personnes qui désirent recevoir ce rapport annuel en français peuvent se le procurer en écrivant au Secrétaire de The Algoma Steel Corporation, Limited, Sault Ste-Marie, Ontario.*

## DIRECTORS

John B. Barber	Sault Ste. Marie, Ontario
<i>Vice President - Finance, The Algoma Steel Corporation, Limited</i>	
John D. Barrington	Toronto, Ontario
<i>Mining consultant and company director</i>	
*Sir Philip Dunn, Bart.	London, England
<i>Financier and company director</i>	
*Ross Dunn, Q.C.	Toronto, Ontario
<i>Partner, McMillan, Binch, Berry, Dunn, Corrigan &amp; Howland, Barristers and Solicitors Appointed February 7, 1968</i>	
*David S. Holbrook	Sault Ste. Marie, Ontario
<i>Chairman and President, The Algoma Steel Corporation, Limited</i>	
Gilbert W. Humphrey	Cleveland, Ohio, U.S.A.
<i>Chairman, The Hanna Mining Company</i>	
Douglas Joyce	Sault Ste. Marie, Ontario
<i>Vice President - Operations, The Algoma Steel Corporation, Limited</i>	
*T. R. McLagan, O.B.E.	Montreal, Quebec
<i>Chairman, Canada Steamship Lines, Limited</i>	
W. Earle McLaughlin	Montreal, Quebec
<i>Chairman and President, The Royal Bank of Canada</i>	
MacKenzie McMurray	Montreal, Quebec
<i>President, Dominion Bridge Company, Limited</i>	
*M. C. G. Meighen, O.B.E.	Toronto, Ontario
<i>President, Canadian General Investments Limited</i>	
Dr. Egon Overbeck	Dusseldorf, West Germany
<i>President, Board of Management, Mannesmann, A.G.</i>	
Ulrich Petersen	Dusseldorf, West Germany
<i>Member, Board of Management, Mannesmann, A.G.</i>	
*Dr. G. Wagner	New York, N.Y., U.S.A.
<i>President, Mannesmann International Corporation, Limited</i>	
*Member of Executive Committee	

## HONORARY DIRECTORS

Hon. T. A. Crerar	Victoria, British Columbia
<i>Retired Senator</i>	
Henry S. Hamilton, Q.C.	Sault Ste. Marie, Ontario
<i>Barrister</i>	
E. Gordon McMillan, Q.C.	Toronto, Ontario
<i>Partner, McMillan, Binch, Berry, Dunn, Corrigan &amp; Howland, Barristers and Solicitors</i>	
Dr. Wilhelm Zangen	Dusseldorf, West Germany
<i>Honorary Chairman, Supervisory Board, Mannesmann, A.G.</i>	

## OFFICERS

David S. Holbrook	Chairman and President
John B. Barber	Vice President - Finance
Douglas Joyce	Vice President - Operations
Donald A. Machum	Vice President - Administration
C. Carson Weeks	Vice President - Sales
David M. Farrell	Secretary
C. E. McLurg	Treasurer
Ross H. Cutmore	Comptroller

## HIGHLIGHTS OF 1968

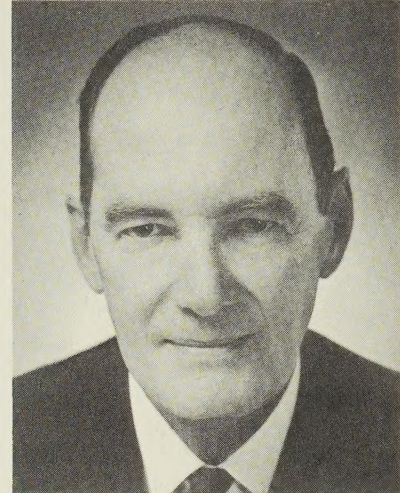
(with comparative figures for 1967)

	1968	1967	INCREASE OR (DECREASE)
	(dollars and tons in thousands)		
Net sales . . . . .	\$216,215	\$200,622	\$ 15,593
Net earnings — total . . . . .	\$ 19,756	\$ 14,207	\$ 5,549
— per share . . . . .	\$ 1.70	\$ 1.22	\$ .48
— per cent of income . . . . .	9.0%	7.0%	2.0%
— per cent of average shareholders' equity . . . . .	8.8%	6.5%	2.3%
Cost of products sold as per cent of net sales . . . . .	80.6%	79.3%	1.3%
Dividends paid — total . . . . .	\$ 11,608	\$ 11,607	\$ 1
— per share . . . . .	\$ 1.00	\$ 1.00	
Capital and mine development expenditures . . . . .	\$ 23,190	\$ 38,995	\$(15,805)
Depreciation and amortization . . . . .	\$ 18,636	\$ 17,610	\$ 1,026
Long term debt at year end . . . . .	\$ 47,116	\$ 39,725	\$ 7,391
Production — iron . . . . .	N.T. 2,189	N.T. 1,957	N.T. 232
— raw steel . . . . .	N.T. 2,261	N.T. 2,073	N.T. 188
Shipments — steel products . . . . .	N.T. 1,549	N.T. 1,451	N.T. 98
Approximate number of shareholders at year end . . . . .	14,796	13,936	860

The Annual Meeting of Shareholders will be held at the Windsor Hotel, Sault Ste. Marie, Ontario, Thursday, April 17th, 1969 at 2:15 p.m. Eastern Standard Time. A formal notice of the meeting and a proxy will be mailed separately.

## PRESIDENT'S LETTER

TO THE SHAREHOLDERS:



David S. Holbrook

*Demand for most steel products was good in 1968, and both sales and earnings of the Corporation were higher than in 1967. The anticipated improvement in earnings during the last half of 1968 failed to materialize, however, because of labour problems at the Steelworks which reduced production and increased costs.*

*The quality of blooms and shaped sections produced in the Continuous Casting Plant has been good and the tonnage through this plant has steadily increased during the year. Continuous casting is a relatively new process and there have been many unique techniques to be mastered. The advantages of continuous casting, particularly applied to Algoma's products, are very much in evidence, and the casting of shapes as shown on the colour insert in this Report is a world first.*

*The buildings for the 160" Plate Mill have been completed and satisfactory progress is being made on the manufacture of the mill and equipment. It is still expected that this mill, which will produce the widest plate manufactured in Canada, will be completed and brought into production late in 1970 or early in 1971. Scheduling of completion of the remaining large units included in the program for Steelworks expansion — the blast furnace and second L-D oxygen steel plant is still under study.*

*Further steps were taken in the program for better control of steel processing from the receipt of orders to delivery to the customer. Methods of planning optimum production have been improved, systems for order processing and preparing timely*

*and accurate production control data have been speeded up and the product control organization has been strengthened.*

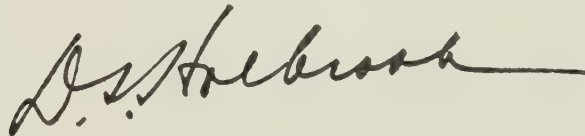
*The Metallurgical Department was completely reorganized to assure meeting customer specifications for increasingly higher quality steel products and benefits from this reorganization are already apparent.*

*Some processing problems were encountered by Steep Rock Iron Mines Limited in producing iron pellets for Algoma which necessitated changes to equipment for grinding ore. By the end of the year the pellet plant was operating close to capacity.*

*Demand for steel products in Canada is stronger than it was at this time last year, especially in the construction industries and it is anticipated that this should continue through the first half of the year.*

*The Board of Directors again met regularly with five meetings held in Montreal, four in Toronto and two in Sault Ste. Marie.*

*The loyalty and efforts of employees are acknowledged with appreciation.*

A handwritten signature in dark ink, appearing to read 'D. S. Holbrook', with a long horizontal flourish extending to the right.

*D. S. Holbrook  
Chairman and President*

*Sault Ste. Marie, Ontario  
February 5th, 1969*

# REVIEW OF 1968 OPERATIONS

## Financial

Compared to 1967 when results were depressed by strikes and an extraordinary charge, earnings increased 39 per cent to \$19.8 million and sales 8 per cent to \$216.2 million. Per share earnings and cash flow were \$1.70 and \$3.09 respectively compared to \$1.22 and \$3.03 in 1967 after the extraordinary charge which reduced earnings 9 cents per share.

Investment income rose \$804 thousand from earnings on funds obtained through the sale of series C debentures and from higher interest rates.

The increase in production costs as a per cent of sales was primarily caused by impairment of operations at the Steelworks.

Further work on the expansion program was largely responsible for higher depreciation and an increase in expense involved in rearranging plant. A very substantial proportion of capital expenditures did not produce any income as it was either on plant and equipment which was not completed or on operating units such as the Continuous Casting Plant which had not yet reached operating levels at which benefits could be realized. Costs of mine development and equipment for mining iron ore were again amortized at rates intended to write them off over recoverable reserves and costs of other fixed assets were depreciated on a straight-line basis at rates set to write them off over their expected lives.

Higher long term debt throughout the year resulted in an increase of \$1.5 million in interest and debt expense. The remaining \$9.3 million of the \$30 million private issue of 7 $\frac{3}{8}$  per cent series C sinking fund debentures was delivered and paid for. Series A debentures totalling \$1.9 million were purchased at favourable prices and \$1 million of these has been applied to satisfy this year's sinking fund requirement. It is intended to apply the balance against sinking fund requirements in future years.

The negative income tax provision is attributable to tax exemption on income from the use of a greater tonnage of iron ore from the mine leased from and operated by Steep Rock Iron Mines Limited. Discussions are underway to determine whether income from the new Ruth and Lucy Mine near Wawa, Ontario will qualify for three-year exemption from income tax.

The dividend rate was maintained at 25 cents quarterly and advice has been received that Canadian shareholders are entitled to deduct 20 per cent depletion allowance for income tax purposes on dividends paid in 1968.

The ratio of current assets to current liabilities at the year end was 3:1 and working capital was \$70.4 million after reserving \$10 million for construction and expansion. Accounts receivable increased \$3.2 million as a result of some slowdown in collections. Inventories rose \$6.7 million with stocks of raw materials increased to support the higher level of operations expected this year, an increase in tonnages of steel products and higher raw material and product costs. Income and refundable taxes amounting to \$2.8 million and included in current assets are expected to be recovered this year.

The increase of \$5.4 million in the market value of long term investments reflected higher prices for the common shares of Dominion Bridge Company, Limited and Canada Steamship Lines, Limited.

There was no change in Algoma's issued and outstanding shares but the total number of shareholders increased about 6 per cent to 14,796 and the number of shareholders in Sault Ste. Marie increased almost 12 per cent to 1,731.

A comprehensive submission was made to the Treasurer of Ontario with respect to the Report of the Ontario Committee on Taxation. This Report recommended revisions in the Mining Tax

Act which would substantially increase the Corporation's tax burden. The Report of the Select Committee appointed by the Ontario Government to study this Report contained arguments which supported those presented by Algoma against the major changes proposed.

Efforts are still being made to convince government officials that radical tax changes proposed in the Report of the Federal Royal Commission on Taxation would have serious unfavourable effects on the growth of Canada and on the primary iron and steel industry.

## Sales

Shipments of steel products increased 7 per cent over 1967 to 1.6 million tons but the proportion of Canadian consumption supplied by Algoma declined. Off-shore shipments were negligible and exports of steel products were higher principally because of strike hedge buying by customers in the United States early in the year.

The tonnage of iron shipped rose 14 per cent to 246 thousand tons as a result of an order from a customer in the United States which is not likely to be repeated.

Sales of Algoma Sinter were entirely to customers in the United States and the tonnage declined 9 per cent to 163 thousand tons.

The average price realized at Sault Ste. Marie on sales of steel products was \$126.98 compared to \$124.82 in 1967. There were no price increases during the year and the higher realization resulted from the sale of a larger proportion of more highly finished products.

The order backlog for steel products at the end of 1968 was at about the same level as at the end of 1967 but it has been increasing since early this year.

High chrome content rails produced by Algoma which resist wear and cracking are receiving increasing attention and Canadian railroads have installed trial sections of this type of rail.

Grinding balls with a higher chrome content are being marketed in sizes up to and including 1½"

in diameter and these have been well received in the trade because of their extra durability. The range of sizes of this type of grinding ball will be increased this year to include balls 2" in diameter.

Several submissions were made to the Department of National Revenue with respect to the dumping of steel into Canada by off-shore producers. This continues to be a serious problem and it is too early to be able to appraise the effect of anti-dumping legislation enacted in December.

## Operations

Production in 1968 and 1967 is shown below:

	1968	1967
	(thousands of tons)	
Algoma Sinter . . . G.T.	1,723	1,562
Coal . . . . . N.T.	2,253	1,841
Coke . . . . . N.T.	1,523	1,295
Iron . . . . . N.T.	2,189	1,957
Raw steel . . . . N.T.	2,261	2,073

Production of coke reached a record level of 1.5 million tons which met all Steelworks Division and the largest part of the Canadian Furnace Division coke requirements.

Continued emphasis was placed on the use of captive ores in the blast furnaces and almost 87 per cent of the total ore smelted was from mines owned or leased by Algoma. A higher tonnage of iron pellets used in the blast furnaces resulted in production of a record 2.1 million tons of iron at the Steelworks. The blast furnace at the Canadian Furnace Division only operated about two thirds of the year.

About 60 per cent of the raw steel was produced in the L-D oxygen steel plant and the balance in the open hearth furnaces. Trials were conducted on the use of large diameter three-hole lances to blow oxygen into the vessels in the L-D oxygen steel plant and indicated improvements in output led to plans to equip all three vessels with this type of lance.

The two strand continuous casting machine which produces shaped sections and slabs commenced trial operations in March. Both this and the four strand bloom machine are now considered to be reliable production units. Algoma and The British Iron and Steel Research Association jointly have patent rights on the continuous casting of shaped sections and an agreement is being negotiated with Concast Incorporated of New York to license that company to manufacture casting machines to produce these sections.

Extensive and continuing studies were made of the reheating furnaces at the flat rolled mills to determine the optimum heating conditions for removal of surface scale from slabs and changes made as a result of these studies have improved the surface quality of products rolled on these mills.

Research on methods of producing steel with improved forming qualities was carried on and mill testing equipment was developed to assure that these qualities are obtained.

At the Algoma Ore Division 2.3 million tons of ore were mined from the George W. MacLeod underground mine and 560 thousand tons from the new Ruth and Lucy open pit mine. The loading and moving of ore by front-end loaders rather than scrapers has been instituted in the underground mine and has improved handling efficiency. Larger ignition furnaces installed on two sintering machines improved their performance and the new large sintering machine continued to operate very satisfactorily both as to output and quality of product.

Metallurgical research continued on methods of processing iron ore from reserves at the Lake St. Joseph, Nordarm and other properties and on methods of improving the quality of Algoma Sinter. Tests conducted indicated that it may be feasible to reduce the quantity of metallics lost in finely ground material discarded at the ore treatment plant at Wawa.

The new high volatile underground coal mine (No. 8) at Cannelton Coal Company was brought into production early in the year and, although initial mining conditions were not favourable, it

is expected that output from this mine will improve this year. A new surface mine (No. 9) was opened in a seam of high volatile coal; about two thirds of the tonnage from this mine is blended with other coals for coke-making purposes and the balance is sold on the open market.

### Improvements, Additions and Alterations

Capital and mine development expenditures were not as high as had been expected and amounted to \$23 million.

Projects completed at the Steelworks included:

The two strand section of the Continuous Casting Plant for producing shaped sections and slabs up to 30" wide and 10" thick

A slab storage yard and facilities for removing surface imperfections from slabs for the new 160" Plate Mill and the 106" Wide Hot Strip Mill

Installation of an automatic scarfing machine on the 44" Blooming Mill for removing surface imperfections from blooms and slabs

The following were underway at the Steelworks at the end of the year:

A phenol recovery plant to improve the quality of water discharged to the St. Mary's River

Conversion of coke oven gas cleaning equipment to a more efficient type

Installation of distribution lines and pressure reducing stations for natural gas; this type of gas is now being injected into the blast furnaces rather than coke oven gas and it will reduce the amount of coke required to produce iron

Relining one of the smaller blast furnaces (No. 3), installing new stockhouse bins and strengthening the highline

Improvements to the ventilating and heating systems in the Ingot Mould Foundry

Manufacture of the 160" Plate Mill is continuing together with building alterations and extensions for the mill and for the plate finishing line which is to be relocated, and installation of water lines, sewers and power services

A building extension and installation of additional equipment for finishing wide hot rolled strip and sheet

The only major expenditure at the Algoma Ore Division was on mine development work and at Cannelton Coal Company was on equipment for the new high volatile coal mine (No. 8).

In December a three year option Agreement was entered into with Little Long Lac Gold Mines Limited involving approximately 1,500 acres of property near Geraldton, Ontario which contains an extensive hematite-magnetite iron formation. This property is adjacent to the Nordarm property which was acquired in 1966 and is in the same area as the Can-Fer property which was leased in 1965. Algoma has the right under this agreement to enter into a long term renewable lease at reasonable royalty rates. Exploration and metallurgical research is underway to establish the potential of the property.

Capital expenditures in 1969 which are expected to amount to approximately \$40 million will include the projects underway at the end of 1968 and the following:

Installation of equipment for cleaning gas discharged from the Sinter Plant at the Steelworks

Relining one of the larger blast furnaces (No. 5) and replacing equipment on this furnace to permit operating at higher temperatures; the stockhouse bins will also be replaced and the highline strengthened

Manufacture of a large blast furnace turbo blower by a supplier

A new ingot mould yard to increase production of higher grade steels

Replacement of mill tables on the 44" Blooming Mill

Installation of a second bloom yard crane to increase production on the Rail and Structural and Wide Flange Beam Mills

Extensions to the structural finishing building and installation of two cranes to expedite the handling and shipment of structural sections

Installation of an automatic scarfing machine on the Bloom and Plate Mill for removing surface imperfections from slabs

Installation of a higher pressure hydraulic system on the Bloom and Plate Mill for removing surface scale

Installation of foundations for the 160" Plate Mill equipment and for the plate finishing line which is to be relocated

Installation of settling basins at the discharge end of the Steelworks sewer system to clean water discharged to the St. Mary's River

Expenditures will continue at the Algoma Ore Division and at Cannelton Coal Company to further modernize and replace mining equipment; no major expenditures are expected at the Canadian Furnace Division.

## Employee, Community and Public Relations

Agreements with the bargaining units which represent employees at all Canadian divisions continued in effect and expire at the end of July 1969. Under these agreements, the Corporation became obligated in January 1968 to contribute one cent per hour worked to a fund to provide some form of benefit for employees laid off during reduced operations. In addition, wage rates were increased in August an average of 11½ cents per hour and the basic rates for production and maintenance employees now range from \$2.51 per hour for unskilled to \$4.51 per hour for skilled workers.

There were no major contract negotiations which frequently result in employee unrest and tensions, but labour problems at the Steelworks Division seriously affected production and efficiency. Output per man hour at this Division was at lower levels than those reached in 1965, although major improvements have been made in plant and equipment, and employment and other costs have increased considerably. This was caused in part by an increasing tendency for employees in the major bargaining unit to resort to illegal actions in disputes, including slowdowns and strikes which are prohibited by the collective agreement, rather than following procedures agreed to in the contract.

This type of action has been taken by employees in a wide variety of situations, from differences over incentive plans to disagreements over work schedules and the assignment of job duties. One incident illustrates the problem — in May a dispute arose over the inclusion of new duties in a bargaining unit job at the Steelworks which should have been resolved through the grievance procedure. Instead, a small group of employees started a series of actions which escalated from a short sitdown to an unruly mob completely blocking entry to the Steelworks in open and violent defiance of city police and of an injunction issued by the Supreme Court of Ontario.

A great deal of thought has been given to this problem and efforts are being made to improve communications with employees and increase efficiency. The results of these efforts will be of the utmost importance to the employees, the community and the shareholders.

Following a short strike which affected the entire coal industry, a new three year collective agreement was concluded by Cannelton Coal Company with its bargaining unit employees. Effective October 1, there was a wage increase of \$3.00 per day, with further increases of \$2.00 per day to become effective in October 1969 and 1970. The agreement also provides for payment of a Christmas bonus to certain employees, improved vacations and several changes affecting administration of the agreement.

The Ontario Royal Commission appointed to inquire into labour disputes issued a report, commonly known as the "Rand Report", which was carefully studied with a summary and commentary sent to all supervisory and staff personnel. It is most desirable that many of the important proposals in this Report become law as soon as possible. Unions should at long last be made legal entities so management and labour are on the same basis with respect to responsibility for their actions. Proposals to end lengthy strikes deserve careful consideration and are of particular interest to Algoma which is the major economic factor in the communities in which it operates. Legislation to make unions liable in the case of unlawful strikes, unless they can show they acted in good

faith, is long overdue and implementation of recommendations to ensure orderly and lawful picketing practices would help eliminate many unsatisfactory situations which have been and are occurring. Despite difficulties, there is a place for free collective bargaining in the future but legislation which would protect the rights of all is needed to make it work better.

Safety at work was stressed through every means of communication. Modern protective equipment was used and special emphasis was placed on the training of new employees in safe working practices. Results were not as good at the Steelworks as they have been in recent years and substantial improvement is essential. In some cases, however, significant safety records were established, notably in the Construction Department which completed one million hours of work without a compensable accident. Although the safety record at the Corporation's coal mines in the United States has been better than the industry average, several serious accidents in coal mines in West Virginia resulted in the government imposing stricter safety requirements on all coal mines. These requirements will increase the cost of coal.

Changes were made in the organization of the Employee Relations Department at the Steelworks Division to improve opportunities for all employees to develop their skills and abilities, and to ensure that the best qualified people are selected for hiring, transfer or promotion. Integration of the employment and training functions will make it possible to improve the relationship of the training and development needs of the individual to the human resource needs of the Corporation.

Adjustments were made in salary scales for supervisory and staff personnel to keep the compensation of these employees in line with that in Canadian industry generally.

The Corporation continued to encourage employee participation in public service activities and supported Canadian educational, cultural and charitable agencies. More than fifty of these organizations responded to an offer to use a weekly local television program on a rotating basis for public information purposes.

## Outlook

Real growth of about 5 per cent in Gross National Product with an increase in business capital expenditures and some building of manufacturers' inventories is generally predicted for the Canadian economy this year. If this prediction should be realized, domestic demand for steel products should be stronger than it was last year when the construction industry, which is normally a large market for steel products, operated at a low level. With respect to export markets, the high demand for steel products in the United States during the early part of last year as a result of fear of a strike in the steel industry is expected to slacken considerably this year. This will probably mean a reduction in exports by the Canadian steel industry.

Last year, off-shore steel producers concentrated on the strong market in the United States and there was a reduction in the tonnage of steel imported into Canada during much of the year. Japan and Europe have agreed to reduce exports to the United States and, since steel producers in these countries will probably pay increased attention to the Canadian market this year, imports of steel products into Canada are likely to increase.

Thus, although the outlook for the Canadian steel industry is more promising this year, it faces a decline in exports and more severe competition from imports.

Algoma is well equipped to increase its participation in the stronger Canadian market but can only do so if employees and the unions which

bargain for them recognize that increased participation and the well-being and growth of the Corporation depend to a very great extent on honest application to their work to increase productivity, freedom from the types of labour problems experienced last year, continuity of operations during contract negotiations and acceptable demands for increased compensation. Although employment costs have increased substantially during the three year term of the collective labour agreements which expire in July, there has been no offsetting increase in output per man hour and there has been only one nominal price increase on Algoma's products. These are facts which must be fully understood if Algoma and its employees are to prosper.

One of the uncertainties referred to in the 1967 Annual Report has been resolved — Canada now has a majority government. However, a firm position has not been taken yet by either the Federal or Provincial Governments on the Reports of the Royal Commission on Taxation and the Ontario Committee on Taxation. The recommendations in these Reports continue to represent a serious threat to the primary iron and steel industry. It is again stressed that further expansion of the steel industry will be retarded for years if recommendations in these Reports, particularly those relating to mining, should be implemented and that uncertainty in this respect is seriously delaying planning for the future.

Submitted on behalf of the Board of Directors

D. S. HOLBROOK

CHAIRMAN and PRESIDENT

# THE ALGOMA STEEL CORPORATION, LIMITED AND SUBSIDIARIES

## CONSOLIDATED EARNINGS

FOR THE YEARS ENDED DECEMBER 31, 1968 AND 1967

		1968	1967
INCOME	Net sales . . . . .	\$216,215,196	\$200,622,252
	Investments . . . . .	3,830,319	3,026,558
		<u>220,045,515</u>	<u>203,648,810</u>
EXPENSES	Cost of products sold . . . . .	174,276,370	159,020,114
	Rearranging plant . . . . .	689,169	179,622
	Administrative and selling . . . . .	5,164,639	5,636,460
	Interest and expense on long term debt . . . . .	2,979,801	1,513,897
	Depreciation and amortization . . . . .	18,636,344	17,609,927
		<u>201,746,323</u>	<u>183,960,020</u>
EARNINGS	Before income taxes . . . . .	18,299,192	19,688,790
INCOME TAXES	Current (Note 2) . . . . .	2,264,000	(820,000)
	Deferred (Note 2) . . . . .	(3,721,000)	5,284,000
		<u>(1,457,000)</u>	<u>4,464,000</u>
EARNINGS	Before extraordinary charge . . . . .	19,756,192	15,224,790
EXTRAORDINARY CHARGE	For doubtful accounts receivable (after \$1,102,000 income taxes) . . . . .	—	1,018,000
NET EARNINGS		<u>\$ 19,756,192</u>	<u>\$ 14,206,790</u>

## CONSOLIDATED RETAINED EARNINGS

FOR THE YEARS ENDED DECEMBER 31, 1968 AND 1967

Balance at beginning of year . . . . .	\$208,792,653	\$208,192,797
Net earnings . . . . .	19,756,192	14,206,790
	<u>228,548,845</u>	<u>222,399,587</u>
Dividends paid . . . . .	11,608,434	11,606,934
Provision for doubtful investments . . . . .	—	2,000,000
Balance at end of year . . . . .	<u>\$216,940,411</u>	<u>\$208,792,653</u>

See Notes to Consolidated Financial Statements on page 16

# THE ALGOMA STEEL CORPORATION, LIMITED AND SUBSIDIARIES

## CONSOLIDATED SOURCE AND APPLICATION OF FUNDS

FOR THE YEARS ENDED DECEMBER 31, 1968 AND 1967

		1968	1967
FUNDS WERE PROVIDED BY	Net earnings . . . . .	\$19,756,192	\$14,206,790
	Charges to earnings not requiring cash outlay:		
	Depreciation and amortization . . . . .	18,636,344	17,609,927
	Income tax applicable to future years . . . .	(3,721,000)	5,284,000
	Excess of accruals over expenditures on operating reserves . . . . .	1,010,862	(1,636,926)
	Amortization of past service pension cost .	298,614	175,549
	Investments reserved for expansion at end of previous year . . . . .	10,000,000	10,000,000
	Sale of series C debentures . . . . .	9,275,000	20,725,000
	Refundable 5% Corporation Tax . . . . .	777,961	1,072,553
	Other — net . . . . .	244,709	134,303
		<u>56,278,682</u>	<u>67,571,196</u>
FUNDS WERE APPLIED TO	Plant and equipment additions . . . . .	21,822,575	37,857,283
	Mine development . . . . .	1,367,893	1,137,326
		<u>23,190,468</u>	<u>38,994,609</u>
	Purchase of series A debentures . . . . .	1,884,000	—
	Payment of dividends . . . . .	11,608,434	11,606,934
	Investments reserved for expansion . . . . .	10,000,000	10,000,000
	Reduction of past service pension liability . .	675,235	627,623
	Refundable 5% Corporation Tax . . . . .	—	244,706
	Accounts and notes receivable transferred to non-current assets . . . . .	—	814,000
	Provision for doubtful investments . . . . .	—	500,000
		<u>47,358,137</u>	<u>62,787,872</u>
WORKING CAPITAL	At end of year . . . . .	<u>\$70,359,455</u>	<u>\$61,438,910</u>

See Notes to Consolidated Financial Statements on page 16

## THE ALGOMA STEEL CORPORATION

## CONSOLIDATED

AS AT DECEMBER

ASSETS	1968	1967
<b>CURRENT</b>		
Cash . . . . .	\$ 1,469,255	\$ 1,354,820
Marketable investments at cost which approximates market . .	16,968,959	11,310,957
Less — reserved (see below) . . . . .	10,000,000	10,000,000
	6,968,959	1,310,957
Accounts receivable . . . . .	35,125,595	31,935,354
Income and refundable taxes recoverable . . . . .	2,765,139	3,163,877
Inventories (Note 3) . . . . .	57,368,119	50,706,056
Prepaid expenses . . . . .	1,744,419	1,302,987
Total current assets . . . . .	105,441,486	89,774,051
REFUNDABLE 5% CORPORATION TAX . . . . .	—	777,961
NON-CURRENT ACCOUNTS AND NOTES RECEIVABLE . .	747,254	814,000
<b>INVESTMENTS AT COST</b>		
Marketable . . . . .	30,297,979	30,232,684
(market value 1968 \$39,905,196 — 1967 \$34,486,021)		
Other . . . . .	172,456	201,274
	30,470,435	30,433,958
<b>MARKETABLE INVESTMENTS RESERVED FOR CONSTRUCTION AND EXPANSION . . . . .</b>	10,000,000	10,000,000
<b>FIXED ASSETS</b>		
Property, plant and equipment at cost (Note 4) . . . . .	429,040,374	408,678,879
Mine development at cost . . . . .	14,087,490	17,422,511
	443,127,864	426,101,390
Accumulated depreciation, depletion and amortization . . . .	204,136,170	190,438,518
	238,991,694	235,662,872
<b>DEFERRED CHARGE</b>		
Unamortized past service pension cost (Note 5) . . . . .	9,878,976	6,545,991
	<u>\$395,529,845</u>	<u>\$374,008,833</u>

See Notes to Consolidated Financial Statements on page 16

Approved on behalf of the Board

D. S. HOLBROOK	Director
GERHARD WAGNER	Director

# IMITED AND SUBSIDIARIES

## ALANCE SHEET

1968 AND 1967

LIABILITIES	1968	1967
<b>CURRENT</b>		
Accounts payable and accrued liabilities . . . . .	\$ 31,398,341	\$ 26,768,669
Income and other taxes payable . . . . .	3,683,690	1,566,472
Total current liabilities . . . . .	35,082,031	28,335,141
<b>LONG TERM DEBT – SECURED (Note 6)</b>		
5¼ % series A sinking fund debentures . . . . .	17,116,000	19,000,000
7¾ % series C sinking fund debentures . . . . .	30,000,000	20,725,000
	47,116,000	39,725,000
<b>PAST SERVICE PENSION LIABILITY (Note 5)</b> . . . . .	20,734,658	17,778,294
<b>DEFERRED INCOME TAXES (Note 2)</b> . . . . .	64,721,000	68,442,000
<b>SHAREHOLDERS' EQUITY (Note 7)</b>		
Capital stock		
Authorized – 30,199,760 shares of no par value		
Issued – 11,608,434 shares . . . . .	10,935,745	10,935,745
Retained earnings . . . . .	216,940,411	208,792,653
	227,876,156	219,728,398
	<u>\$395,529,845</u>	<u>\$374,008,833</u>

### AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of The Algoma Steel Corporation, Limited and subsidiaries as of December 31, 1968 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company and subsidiaries at December 31, 1968 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Sault Ste. Marie, Ontario  
January 20, 1969.

“PEAT, MARWICK, MITCHELL & CO.”  
Chartered Accountants

# THE ALGOMA STEEL CORPORATION, LIMITED AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 1968

(1) **PRINCIPLES OF CONSOLIDATION** The financial statements include the accounts of all subsidiary companies. Minority interests are not significant and are included in current liabilities in the balance sheet; the increase in 1968 has been provided for in cost of sales in the earnings statement. Assets and liabilities of the United States subsidiary are included in the financial statements at par of exchange. If these were converted to Canadian dollar equivalent there would not be any substantial effect on the financial position.

(2) **INCOME TAXES** The \$3,721,000 deferred income tax credit in the earnings statement results principally from recording a greater amount of depreciation in the books than the amount to be claimed for tax purposes. This amount is deducted from Deferred Income Taxes in the balance sheet which are applicable to future periods when amounts claimed for depreciation for tax purposes may be less than amounts recorded in the accounts.

Certain income is exempt from income tax for thirty-six months commencing October 1, 1967. Without exemption, taxes on income would have increased approximately \$5,000,000 in 1968.

(3) **INVENTORIES** Finished products and work in process are valued at the lower of cost or net realizable value, and raw materials and supplies are valued at the lower of cost or replacement cost. Inventories at December 31, 1968 and 1967 are:

	1968	1967
Finished products . . . . .	\$11,284,842	\$10,396,921
Work in process . . . . .	11,380,382	10,071,746
Raw materials and supplies . . . . .	34,702,895	30,237,389
	<u>\$57,368,119</u>	<u>\$50,706,056</u>

(4) **PROPERTY, PLANT AND EQUIPMENT** Commitments of approximately \$32 million are outstanding at December 31, 1968 on the major expansion program which commenced in 1965.

(5) **PENSIONS** An increase of \$6,592,000 in past service pension liability resulted from revisions in pension agreements effective January 1, 1968. This increase has been provided for in the amount of \$3,626,000 after allowing for income tax reductions applicable to future annual payments and the charge related thereto reflected as a deferred charge. Past service pension costs and income taxes relating thereto have been reflected in consolidated earnings in 1968 and prior years before deducting applicable income taxes.

The Deferred Charge in the balance sheet for past service pension cost is being amortized by annual charges until December, 1989. The Past Service Pension Liability in the balance sheet is being funded by annual instalments terminating December 31, 1989.

(6) **LONG TERM DEBT** Series A debentures are secured by a Trust Deed under which a sinking fund must be provided to redeem \$1 million principal amount in each of the years 1969 to 1977 inclusive. Debentures become due May 15, 1978 and all or any part may be redeemed at any time. At December 31, 1968 debentures of \$1.9 million are redeemed in advance of sinking fund requirements and are available to meet such future requirements.

The Corporation delivered and received payment for the balance of \$9,275,000 principal amount of series C debentures in 1968. These debentures rank pari passu with series A debentures and are secured by a Supplemental Trust Deed under which a sinking fund must be provided to redeem \$1.2 million principal amount in each of the years 1972 to 1986 inclusive. Debentures become due October 1, 1987 and all or any part may be redeemed at any time.

(7) **SHAREHOLDERS' EQUITY** As long as series A debentures are outstanding the Corporation must meet certain financial requirements before paying dividends or reducing share capital. These requirements are exceeded by a substantial amount.

At December 31, 1968 there were unexercised options under the stock option plan for certain employees, terminating in 1971 on 2,000 shares at \$15.10 per share and terminating in 1974 on 69,750 shares at prices of \$29.60 and \$29.70 per share.

(8) **REMUNERATION** Total remuneration of directors and senior officers amounted to \$555,795.

(9) **LAWSUITS** The Corporation is defendant in two lawsuits involving substantial amounts. In the opinion of the Corporation's General Legal Counsel, there is no basis for any of the claims made by the Plaintiff against the Corporation in either suit.

EXECUTIVE OFFICES

Sault Ste. Marie, Ontario

WORKS AND OPERATIONS

The Algoma Steel Corporation, Limited

Steelworks Division, Sault Ste. Marie, Ontario

Canadian Furnace Division, Port Colborne, Ontario

Algoma Ore Division, Michipicoten District, Ontario

Cannelton Coal Company

Kanawha Division, Cannelton, West Virginia

Pocahontas Division, Superior, West Virginia

## THE ALGOMA STEEL CORPORATION, LIMITED

INCORPORATION

Under the laws of the Province of Ontario

SHARE TRANSFER AGENTS  
AND REGISTRARS

Montreal Trust Company, Saint John, Montreal, Toronto,  
Winnipeg, Calgary and Vancouver

The Royal Bank of Canada Trust Company, New York

TRUSTEE FOR DEBENTURES

Montreal Trust Company, Toronto, Ontario

REGISTRAR FOR DEBENTURES

Montreal Trust Company, Montreal, Toronto, Winnipeg and Vancouver

# THE ALGOMA STEEL CORPORATION

## COMPARISON OF FINANCIAL AND

### SUMMARY OF OPERATIONS AND NET EARNINGS (thousands of tons and millions of dollars)

Year	Production				Shipments of steel products net tons	Income \$	Cost of products sold \$	Rear-ranging plant \$	Administrative and selling \$	Interest & expense on long term debt \$	Depreciation and amortization \$	Income taxes \$	Net earnings \$
	Coal net tons	Algoma Sinter gross tons	Iron net tons	Raw steel net tons									
1968	2253	1723	2189	2261	1549	220.0	174.3	.7	5.1	3.0	18.6	(1.5)	19.8
1967	1841	1562	1957	2073	1451	203.6	159.0	.2	5.6	1.5	17.6	4.5	14.2(1)
1966	1685	1805	2241	2347	1715	239.0	174.5	.8	5.7	1.2	16.5	15.5	24.8
1965	1674	1822	2289	2486	1768	244.4	169.4	.1	4.8	1.3	15.1	22.9	30.8
1964	1591	1781	2261	2301	1670	226.8	157.5	.7	4.6	1.4	14.5	20.5	27.6
1963	1672	1618	2077	2092	1520	205.8	141.7	.5	4.3	1.5	13.1	18.8	25.9
1962	1443	1460	1772	1759	1297	180.2	127.4	.7	3.7	1.5	11.6	14.2	21.1
1961	1443	1631	1732	1650	1228	169.7	123.4	.8	3.4	1.6	10.5	10.5	19.5
1960	1443	1707	1427	1278	949	143.3	105.5	.9	3.2	1.6	10.0	8.8	13.3
1959	1457	1838	1552	1372	1045	164.5	116.5	.5	3.2	1.7	10.8	14.2	17.6
1958	1275	1632	1110	962	727	124.2	89.6	1.0	2.9	1.2	9.3	8.4	11.8
1957	1249	1582	1434	1066	823	144.0	105.7	1.7	3.0	.5	7.6	11.3	14.2
1956	1191	1411	1490	1105	871	144.0	107.4		2.8	.4	6.3	11.4	15.7
1955	896	1262	1294	990	764	114.7	88.0		2.2	.6	5.8	7.7	10.4
1954	626	1107	736	566	423	71.0	56.3	.1	1.7	1.0	5.6	1.9	4.4

### SOURCE AND APPLICATION OF FUNDS (millions of dollars)

Year	Source						Application						Increase in working capital \$
	Net earnings \$	Depreciation and amortization \$	Deferred taxes on income \$	Sale of investments \$	Long term debt \$	Other — net (2) \$	Fixed assets \$	Investments reserved for expansion \$	Reduction of debt \$	Dividends \$	Investments \$	Refundable 5% tax \$	
1968	19.8	18.6	(3.7)		9.3	10.9	23.2	10.0	1.9	11.6		(.8)	9.0
1967	14.2	17.6	5.3		20.7	6.7	39.0	10.0		11.6		(.8)	4.7
1966	24.8	16.5	6.5			15.2	33.5	10.0	4.8	11.6	1.5	1.6	—
1965	30.8	15.1	9.1			.6	25.2	15.0	3.1	10.4			1.9
1964	27.6	14.5	11.6			16.3	37.5		1.7	9.3	27.5		(6.0)
1963	25.9	13.1	5.7	16.1		9.4	31.5	15.0	1.8	8.7			13.2
1962	21.1	11.6	4.6			11.3	33.2	9.0	1.3	8.1			(3.0)
1961	19.5	10.5	3.4			2.0	18.0	10.0	.7	7.0			(.3)
1960	13.3	10.0	3.1			14.8	26.4		1.4	7.0			6.4
1959	17.6	10.8	1.7			.9	13.8	14.0	2.1	5.8			(4.7)
1958	11.8	9.3	4.9		25.0	(4.3)	35.9		.5	5.7			4.6
1957	14.2	7.6	1.9			.2	25.8		.6	5.7			(8.2)
1956	15.7	6.3	2.9	.7		.7	9.2		.6				16.5
1955	10.4	5.8	5.5			1.0	5.8		.7				16.2
1954	4.4	5.6	1.8				7.2		.4		2.1		2.1

(1) After extraordinary charge of \$1.0 million.

(2) Includes investments reserved for expansion at end of previous year.

# LIMITED AND SUBSIDIARIES

## OPERATING RESULTS 1968 - 1954

### STATISTICS RELATING TO EARNINGS (millions of dollars excepting per share data)

Year	Cash dividends \$	Net earnings retained in business \$	Cash flow from operations \$	Per share			Cost of products sold as % of net sales %	Income taxes as % of income %	Net earnings as % of		
				Net earnings \$	Cash dividends \$	Cash flow \$			Income %	Average shareholders' equity %	Average invested capital %
1968	11.6	8.2	35.9	1.70	1.00	3.09	80.6	(.7)	9.0	8.8	8.0
1967	11.6	2.6	35.1	1.22	1.00	3.03	79.3	2.2	7.0	6.5	6.0
1966	11.6	13.2	48.0	2.14	1.00	4.13	74.1	6.5	10.4	11.7	10.9
1965	10.4	20.4	55.6	2.66	.90	4.80	70.0	9.4	12.6	15.3	13.9
1964	9.3	18.3	55.0	2.38	.80	4.74	70.0	9.0	12.2	14.7	13.1
1963	8.7	17.2	45.1	2.24	.75	3.89	69.5	9.1	12.6	15.8	13.8
1962	8.1	13.0	38.6	1.82	.70	3.33	71.5	7.9	11.7	14.7	12.6
1961	7.0	12.5	35.3	1.68	.60	3.05	73.6	6.2	11.5	14.9	12.5
1960	7.0	6.3	27.1	1.15	.60	2.35	74.9	6.1	9.3	11.0	9.2
1959	5.8	11.8	31.0	1.53	.50	2.68	71.6	8.6	10.7	15.8	12.7
1958	5.7	6.1	26.3	1.02	.50	2.29	72.9	6.8	9.5	11.6	9.9
1957	5.7	8.5	23.9	1.24	.50	2.10	74.2	7.8	9.9	15.1	13.6
1956		15.7	26.3	1.38		2.31	75.4	7.9	10.9	19.2	16.9
1955		10.4	22.7	.92		1.99	77.2	6.7	9.1	15.2	13.0
1954		4.4	9.7	.39		.85	79.5	2.7	6.2	7.3	6.3

### BALANCE SHEET SUMMARY (millions of dollars excepting per share data)

Dec. 31	Working capital \$	Non-current receivables \$	Investments \$	Investments reserved for expansion \$	Net fixed assets \$	Deferred charge \$	Long term debt \$	Past service pension liability \$	Deferred income taxes \$	Deferred earnings on advance sales \$	Shareholders' equity \$	Shareholders' equity per share \$	Number of shares issued (000)	Number of shareholders
1968	70.4	.7	30.4	10.0	239.0	9.9	47.1	20.7	64.7		227.9	19.63	11608	14796
1967	61.4	1.6	30.4	10.0	235.7	6.5	39.7	17.8	68.4		219.7	18.93	11608	13936
1966	56.7	1.6	31.8	10.0	212.8	6.8	19.0	18.4	63.2		219.1	18.88	11606	13284
1965	56.7		30.3	15.0	196.0		23.9	11.8	56.7		205.6	17.73	11596	13912
1964	54.8		30.3		186.7		26.9		47.6		197.3	17.02	11594	8744
1963	60.8		2.9	15.0	164.0		28.6		34.9	.4	178.8	15.45	11574	7863
1962	47.6		6.5	9.0	146.2	.5	30.4		29.4	.5	149.5	12.92	11572	7815
1961	50.6		6.5	10.0	125.8	.5	31.7		24.7	.3	136.7	11.81	11572	7537
1960	50.9		6.4		120.0	.6	32.4		21.3	.3	123.9	10.73	11542	7176
1959	44.5		6.5	14.0	104.3	.6	33.8		18.3	.3	117.5	10.19	11532	6394
1958	49.2		6.6		101.5	.7	35.9		17.0	.2	104.9	9.13	11490	4678
1957	44.6		6.6		70.7		11.4		12.1	.4	98.0	8.60	11406	3396
1956	52.8		6.7		52.8		12.0		10.2	.4	89.7	7.86	11406	2642
1955	36.3		7.4		50.6		12.6		7.3	.5	73.9	6.48	11406	2308
1954	20.1		7.4		51.1		13.3		1.8		63.5	5.57	11406	2152

Statistics on shares exclude shares owned by subsidiaries in 1956 and prior years, and are adjusted for share subdivisions in June 1957 and May 1966.

Average invested capital is the average of shareholders' equity plus long term debt less unamortized debenture expense at the beginning and end of the year.

# THE ALGOMA STEEL CORPORATION, LIMITED

## SALES OFFICES

Sault Ste. Marie, Ontario  
Saint John, New Brunswick  
Montreal, Quebec  
Toronto, Ontario  
Hamilton, Ontario  
Windsor, Ontario  
Winnipeg, Manitoba  
Vancouver, British Columbia

## PRODUCTS

Algoma Sinter  
Coke  
Coal Chemicals  
Pig Iron  
Ingots  
Blooms, Billets and Slabs  
Heavy and Light Rails  
Rail Fastenings  
Heavy Structural  
Parallel Flange Beams  
Light Structural  
Carbon Merchant Bars  
Reinforcing Bars  
Tube Rounds  
Grinding Balls and Rods  
Sheared Plate  
Universal Plate  
Hot Rolled Sheet and Strip  
Cold Rolled Sheet and Strip  
Electrical Sheet and Strip  
Skelp



